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DRAFTED BY EA/J:S M ECTON:KAR
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TREAS:F BERGSTEN (SUBS)
COMMERCE:F WEIL (SUBS)
LABOR:MR. SAMUELS (SUBS)
S/S: JETHYDEN

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EXDIS

E.O. 11652: GDS

TAGS: EGEN, ETRD, JA, US

SUBJECT: NON PAPER ON ECONOMIC ISSUES FOR GOJ

1. FOLLOWING IS THE FINAL AGREED INTERAGENCY "NON PAPER"
ON ECONOMIC ISSUES FOR TRANSMITTAL TO THE GOJ BY AMBASSADOR
MANSFIELD.

2. BEGIN QUOTE. THE PROBLEM. THE UNITED STATES IS IN-
CREASINGLY CONCERNED BY THE GROWING IMBALANCE IN JAPAN'S
TRADE AND PAYMENTS RELATIONS WITH THE REST OF THE WORLD.
THESE IMBALANCES, ADDED TO OTHER MAJOR PAYMENT IMBALANCES,
CREATE INCREASING STRAINS ON THE WORLD TRADE AND PAYMENT
SYSTEMS, AND ADD TO CONCERNS OVER UNEMPLOYMENT AND FEARS OF
INJURY FROM IMPORTS. THESE CONCERNS THREATEN TO DAMAGE THE
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TRADITIONALLY CLOSE AND BENEFICIAL RELATIONS WHICH OUR TWO
COUNTRIES HAVE ENJOYED.

3. THE UNITED STATES AND JAPAN, AS TWO OF THE WORLD'S
STRONGEST ECONOMIES AND LARGEST TRADING NATIONS, SHARE SPEC-
IAL RESPONSIBILITIES, ALONG WITH EUROPE, FOR MAJOR CONTRIBU-
TIONS TO RELIEVE THESE PRESSURES ON THE WORLD TRADE AND
PAYMENTS SYSTEM, AND TO RESTORE HEALTHY GROWTH RATES IN THE
WORLD ECONOMY. UNITED STATES CURRENT ACCOUNT DEFICITS,
RESULTING LARGELY FROM DOMESTIC ECONOMIC RECOVERY EFFORTS,

HAVE ASSISTED TRADE DEFICIT NATIONS BY SUSTAINING DEMAND FOR THEIR EXPORTS.

4. IT IS VITAL THAT JAPAN NOT AGGRAVATE THE GLOBAL PROBLEM BY ITS CONTINUING CURRENT ACCOUNT SURPLUS, BUT RATHER JOIN IN ITS SOLUTION BY UNDERTAKING MEASURES THAT MOVE IT EXPEDITIOUSLY INTO A NET DEFICIT POSITION. IN THE ABSENCE OF SUCH A RESULT, DEEP AND STRONG POLITICAL CONCERNS IN EUROPE AND THE US, FUELED BY CONTINUING UNEMPLOYMENT, GROWING DEBT AND BUSINESS FAILURES, WILL FIND INCREASING EXPRESSION IN STEPS TO PROTECT DOMESTIC PRODUCTION AND EMPLOYMENT. THESE WOULD RESTRICT WORLD TRADE AND WOULD CAUSE GREAT DAMAGE TO COUNTRIES SUCH AS JAPAN WHICH ARE HEAVILY DEPENDENT ON EXPORTS. JAPAN'S SURPLUS COULD PROVE TO BE THE VERY FORCE WHICH UNDERMINES A LIBERAL TRADING REGIME ON WHICH OUR MUTUAL PROSPERITY DEPENDS. APPROPRIATE MEASURES MUST BE TAKEN QUICKLY.

5. THE NEED. JAPAN'S GROWING PROMINENCE IN WORLD TRADE MATTERS AND ITS ASSUMING A ROLE OF LEADERSHIP, ALONG WITH THE UNITED STATES, WILL BE MAJOR FACTORS IN DETERMINING WHETHER THE WORLD TRADE AND PAYMENTS SYSTEM WILL REMAIN OPEN AND LIBERAL. WE RECOGNIZE THAT JAPAN ALSO FACES
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SERIOUS DOMESTIC ECONOMIC DIFFICULTIES. HOWEVER, JAPAN CAN EXERCISE ITS INTERNATIONAL RESPONSIBILITIES THROUGH MEASURES WHICH CAN AT THE SAME TIME BENEFIT ITS DOMESTIC ECONOMY, SUCH AS BY ACTIONS TO STIMULATE ECONOMIC GROWTH.

6. THE JAPANESE GOVERNMENT HAS BEEN IN TOUCH WITH THE US GOVERNMENT TO ASCERTAIN OUR VIEWS ON STEPS IN THE SPIRIT OF MUTUAL CONSULTATION THAT HAS MARKED OUR CLOSE RELATIONSHIP OVER THE YEARS, AND PARTICULARLY IN THE SPIRIT OF CLOSE COORDINATION OF OUR ECONOMIC POLICIES EXPRESSED AT THE LONDON SUMMIT, THE US PRESENTS ITS SENSE OF POLICIES, FOCUSED ON THE AREAS OF MOST ACUTE CONCERN, WHICH JAPAN MIGHT ADOPT TO RESOLVE THE PROBLEM, STRENGTHEN THE WORLD TRADING ORDER, AND CALM BILATERAL CONCERNS.

7. THE UNITED STATES PLACES HIGHEST PRIORITY ON A JAPANESE COMMITMENT NOW TO ACHIEVE A CURRENT ACCOUNT DEFICIT. WE WOULD WELCOME HEARING A RESPONSE FROM THE JAPANESE GOVERNMENT AS TO WHEN AND HOW IT WOULD MOVE TO REACH THIS GOAL. THIS OBJECTIVE COULD BE MET THROUGH SPECIFIC MEASURES WITH IMMEDIATE EFFECT IN 1978 AND FURTHER MEASURES FOR LASTING EFFECT OVER THE YEARS TO OPEN JAPAN'S MARKETS TO IMPORTS AND RESTRAINT OF EXPORT PROMOTION. THE UNITED STATES GOVERNMENT SEES A LONG TERM COMMITMENT TO OPEN JAPAN'S MARKETS AS ESSENTIAL TO LEND WEIGHT AND CREDIBILITY TO THE SERIES OF SPECIFIC MEASURES.

8. TO FACILITATE JAPAN'S EXPANDING IMPORTS, RESTRAINING EXPORT PROMOTION AND TAKING OTHER PRIORITY MEASURES, WE HOPE THAT JAPAN COULD COMMIT ITSELF TO A SIGNIFICANTLY INCREASED GROWTH TARGET OF APPROXIMATELY 8 PERCENT IN JFY 1978. EXPANSIONARY MACROECONOMIC POLICIES WOULD BE NECESSARY TO OFFSET THE DEPRESSING EFFECT OF CERTAIN MEASURES TO ACHIEVE CURRENT ACCOUNT DEFICIT, AND SHOULD MAKE POSSIBLE JAPAN'S ACHIEVEMENT OF SUCH A DEFICIT.

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9. IT IS IMPORTANT THAT NEITHER OF OUR COUNTRIES FALLS SHORT IN ITS RESPONSIBILITIES. IF, IN JOINTLY MONITORING PROGRESS, WE FIND THAT THE CURRENT ACCOUNT DOES NOT MOVE ADEQUATELY TOWARD DEFICIT, WE SHOULD AGREE THAT ADDITIONAL CORRECTIVE MEASURES WOULD BE TAKEN.

10. IN PURSUING THIS GOAL THE USG BELIEVES THE GOVERNMENT OF JAPAN SHOULD ACCEPT A PUBLIC COMMITMENT TO A MAJOR INCREASE IN IMPORTS OF BROAD CATEGORIES OF MANUFACTURES AND AGRICULTURAL GOODS AS A PERCENTAGE OF TOTAL JAPANESE CONSUMPTION IN THESE SECTORS, AND A DRAMATIC INCREASE IN JAPAN'S TOTAL IMPORTS OF MANUFACTURES WITHIN TWO OR THREE YEARS.

11. TIMING AND CONSULTATION. WE HOPE THAT YOUR GOVERNMENT WILL BE IN A POSITION TO ANNOUNCE BY MID-DECEMBER AN IMMEDIATE COMMITMENT AND A SPECIFIC LIST OF MEASURES FOR SHORT AND LONG TERM EFFECT. IN THIS CONTEXT AMBASSADOR STRAUSS WOULD COME TO TOKYO.

12. OUR GOVERNMENTS HAVE ALREADY ESTABLISHED JOINT ARRANGEMENTS FOR REGULAR FOLLOW-UP, INCLUDING A TRADE FACILITATION COMMITTEE TO ADDRESS SPECIFIC TRADE PROMOTION AND MARKET ISSUES, AND A JOINT PROTECTION GROUP TO ASSESS OVERALL PROGRESS. WE NEED TO RECONFIRM THE IMPORTANCE OF REGULAR AND FREQUENT MEETINGS FOR THESE JOINT BODIES TO ASSURE THE SUCCESS OF THIS EFFORT.

13. THE PACKAGE. WE SUGGEST THAT THE MEASURES ANNOUNCED BY THE GOVERNMENT OF JAPAN BE OF TWO KINDS: (A) DECISIONS FOR IMMEDIATE IMPLEMENTATION AND (B) COMMITMENTS TO EARLY DECISION AND IMPLEMENTATION OF MEASURES WITH LONGER-TERM EFFECT.

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14. THE SPECIFIC PACKAGE THE US WOULD PROPOSE IN ORDER OF PRIORITY IS AS FOLLOWS:

A. DECISIONS FOR IMMEDIATE IMPLEMENTATION

1. MTN COMMITMENT. THE GOVERNMENT OF JAPAN SHOULD MAKE A RENEWED HIGH-LEVEL COMMITMENT TO ACTIVE PARTICIPATION AND LEADERSHIP IN THE MTN BOTH FOR A SUBSTANTIAL OVERALL TARIFF REDUCTION AND THE CONCLUSION OF A SIGNIFICANT CODE ON NON-TARIFF MEASURES, PARTICULARLY GOVERNMENT PROCUREMENT, STANDARDS, AND SUBSIDIES/COUNTERVAILING DUTIES.

2. QUOTAS TO BE ELIMINATED OR SUBSTANTIALLY INCREASED. THE GOVERNMENT OF JAPAN SHOULD SUBSTANTIALLY INCREASE OR ELIMINATE ITS REMAINING 27 QUOTAS. SPECIFIC SUGGESTIONS WILL BE PROVIDED SEPARATELY.

3. ADVANCE TARIFF REDUCTIONS. ALTHOUGH TRADE EFFECTS MAY BE NEGLIGIBLE IN FY 1977 AND 78, GREAT SYMBOLIC IMPORTANCE ATTACHES TO A JAPANESE DEMONSTRATION OF INTENT TO MAKE IMPORTANT TARIFF REDUCTIONS IN ADVANCE OF THE MTN, WHICH WILL BE GIVEN CREDIT IN THE MTN. CUTS SHOULD BE FROM CURRENTLY APPLIED LEVELS AND RECEIVE A BINDING WHERE POSSIBLE. SPECIFIC SUGGESTIONS WILL BE PROVIDED SEPARATELY.

4. NON-TARIFF MEASURES. THE GOVERNMENT OF JAPAN SHOULD PLEDGE TO PARTICIPATE ACTIVELY AND COOPERATE IN THE ONGOING NEGOTIATIONS IN THE MTN ON NON-TARIFF MEASURES. THE SUCCESSFUL OUTCOME OF THESE NEGOTIATIONS SHOULD REDUCE OR ELIMINATE A NUMBER OF NON-TARIFF MEASURES IN JAPAN, THEREBY FACILITATING TRADE WITH JAPAN. IN ADDITION, THE GOVERNMENT OF JAPAN SHOULD TAKE IMMEDIATE ACTION IN THE FOLLOWING AREAS:

A. GOVERNMENT PROCUREMENT. DETERMINE MAJOR ITEMS FOR CONFIDENTIAL

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OPENING TO INTERNATIONAL COMPETITION ON AN EQUAL BASIS WITH DOMESTIC SUPPLIERS, AS IS NOW PROVIDED FOR BY JAPANESE LAW. THE FOLLOWING ARE PARTICULARLY IMPORTANT: COMPUTERS, TELECOMMUNICATIONS, POWER GENERATIONS, AND TRANSPORT EQUIPMENT. SUCH BIDS SHOULD BE EXEMPT FROM "AUTOMATIC SELECTIVE TENDER" OR "PRIVATE CONTRACT PROCEDURES". THE ANNOUNCEMENT OF CHANGES IN GOVERNMENT TENDER PROCEDURES, WITH BROAD INTERNATIONAL ADVERTISING AND ADEQUATE DEADLINES TO ALLOW FOREIGN PRODUCERS TO COMPETE, SHOULD BE READY BY EARLY NEXT YEAR.

INCREASE IMPORT PURCHASES BY NATIONALLY-OWNED CORPORATIONS INCLUDING THE TOBACCO MONOPOLY CORPORATION, JAPAN NATIONAL RAILWAYS, NIPPON TELEPHONE, AND THE ELECTRIC POWER DEVELOPMENT CORPORATION.

SUCH FAVORABLE ACTION WOULD BE TAKEN INTO ACCOUNT WHEN ASSESSING THE BALANCE OF ADVANTAGES THAT WILL FLOW FROM INTERNATIONAL ADOPTION OF THE GOVERNMENT PROCUREMENT CODE

PRESENTLY UNDER NEGOTIATION IN THE MTN.

B. CUSTOMS AND STANDARDS. MODIFY CUSTOMS AND STANDARDS PROCEDURES IN A WAY THAT POSITIVELY FACILITATES IMPORTS. SPECIFIC SUGGESTIONS IN THE STANDARDS AREA WILL BE PROVIDED SEPARATELY.

C. STANDARD METHOD OF SETTLEMENT. ELIMINATE ALL REQUIREMENTS THAT PAYMENT FOR IMPORTS SHOULD BE MADE WITHIN FOUR MONTHS OF INVOICING AND REMOVE THE PROHIBITION ON ADVANCE PAYMENTS.

5. EXPORT CREDIT AND PROMOTION. ACCEPT AND IMPLEMENT US PROPOSALS ON TIGHTENING EXPORT CREDIT STANDARDS, AS PRO-CONFIDENTIAL

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POSED IN THE RECENT US-JAPAN DISCUSSIONS ON THIS SUBJECT.

SUSPEND PLANS FOR FURTHER EXPANSION OF EXPORT CREDIT AND PUT INTO ABEYANCE INTENSIFIED PROMOTION PROGRAMS FOR PLANT AND EQUIPMENT EXPORTS.

6. IMPORT CREDIT AND PROMOTION. SET A SPECIFIC ALLOTMENT OF FUNDS FOR IMPORT FINANCING THROUGH THE EXPORT-IMPORT BANK AND REDIRECT JETRO TOWARD IMPORT PROMOTION.

7. PURCHASE FOR STOCKPILING BUILDUP. PURCHASE OF COMMODITIES FOR STOCKPILING BUILD-UP SUCH AS GRAIN AND NON-FERROUS METALS CAN BE BENEFICIAL IN THE SHORT TERM UNTIL OTHER POLICIES BEGIN TO TAKE EFFECT. SPECIFIC SUGGESTIONS WILL BE PROVIDED.

8. GROWTH TARGETS. ACHIEVE AN 8 PERCENT RATE OF DOMESTIC-LED ECONOMIC GROWTH. CHOICE OF MONETARY AND FISCAL MEASURES TO INDUCE SUCH GROWTH SHOULD BE MADE TO OPTIMIZE IMPORT INCREASING EFFECTS.

B. COMMITMENTS TO MEDIUM- AND LONGER-TERM ACTIONS.

1. IMPORT FACILITATION. DEVELOP AN EXTENSIVE PROGRAM OF IMPORT FACILITATION MEASURES THROUGH THE TRADE FACILITATION COMMITTEE WITH TARGET DATES.

2. MEASURES TO STIMULATE CONSUMPTION LEVELS. TAKE STEPS TO ELIMINATE THE DEFLATIONARY GAP BETWEEN SAVINGS AND INVESTMENT BY STIMULATING CONSUMPTION LEVELS. TECHNIQUES MAY INCLUDE REALLOCATION OF CREDIT PRIORITIES IN FAVOR OF CONSUMPTION AND AWAY FROM EXPORTS. JAPAN SHOULD OPEN CONSUMER INSTALLMENT FINANCING TO PARTICIPATION BY BOTH DOMESTIC AND FOREIGN BANKS.

3. TRADE CREDIT. ESTABLISH A SCHEDULE TO GRADUALLY

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LIBERALIZE IMPORT CREDIT FACILITIES, TO EXPAND GOVERNMENT RESOURCES FOR THIS PROGRAM, AND TO MAKE TERMS MORE COMPARABLE WITH THOSE AVAILABLE FOR EXPORT.

4. EXPORT RELAXATION. SCALE DOWN THE USE OF PACKAGED FINANCING TECHNIQUES FOR THE PROMOTION OF PLANT AND EQUIPMENT EXPORT. SPECIAL SUBVENTIONS AND OTHER FORMS OF GOVERNMENT SUPPORT WHICH ENCOURAGE EXCESS EXPANSION OF CAPACITY IN HIGHLY COMPETITIVE EXPORT SECTORS SHOULD BE ELIMINATED.

AVOID OVERBUILDING CAPACITY, SUCH AS NOW EXISTS IN THE STEEL AND SHIPBUILDING INDUSTRIES, WHEN FUTURE MARKET OPPORTUNITIES DO NOT SEEM TO WARRANT IT. SPECIFICALLY, FUTURE MARKET CONDITIONS MAY NOT WARRANT CURRENT JAPANESE PLANS FOR INVESTMENT TO EXPAND CAPACITY IN THE AUTO AND COMPUTER INDUSTRIES.

5. AID POLICIES. UNTIE AID EXTENSIVELY AND ACHIEVE A DOUBLING OF AID.

SOFTEN AID TERMS TO ACHIEVE THE DAC GOAL OF AN 84 PERCENT GRANT ELEMENT IN OFFICIAL DEVELOPMENT ASSISTANCE. END QUOTE. VANCE

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